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Like Actors, Retail Properties Are Getting Face-Lifts, Too

By Mike Sheridan

Across the United States, making old new again is rapidly becoming a trend in the retail real estate industry. In a market where competition for tenants is fierce, sprucing up older properties can make a difference in getting retailers to sign leases. Read more to learn how developers can successfully renovate tired retail properties to secure higher rents and better tenants.

Want to increase profits at aging retail properties?

Do a Joan Rivers. Just like aging comedians, tired retail properties across the U.S. are getting face-lifts.

Consider one such property in downtown Los Angeles. There, Brookfield Office Properties is undertaking a $40 million redevelopment of its 330,000-square-foot (30,658-sq-m) retail center-which is being renamed FIGat7th-to dramatically enhance the shopping experience, aesthetics, and functionality.

"Retail is an industry that has to evolve and stay fresh," says Ed Hogan, national director of retail leasing for New York City–based Brookfield Office Properties, noting that FIGat7th will include the first of Target's new "CityTarget" urban-concept stores. "The industry is seeing a lot more renovation than new construction right now, and I don't see that changing. Investors are looking at redeploying their money into assets that continue to make money for them, and one way to do that is to redevelop urban shopping centers."

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One retail property where this is being done is in Miami, Florida. The Palms at Town & Country-a Mediterranean-themed, open-air-designed, TIAA-CREF–owned property-underwent a redevelopment that included a new 400,000-square-foot (37,161-sq-m) retail expansion. "With the economic downturn, many retailers are pulling back on openings and leasing-especially in secondary and tertiary markets," Michael J. Longmore, senior vice president with Jones Lang LaSalle, leasing agents for the retail property said in announcing the refurbishment. "We have found with this project it hasn't been the case, as we've had major leasing response from national and local retailers."

As ground-up development opportunities remain scarce, developers are turning to refurbishing existing properties for good reason: Retail renovations typically result in higher rents and better tenants, says Lawrence P. Casey, chief operating officer at Costa Mesa, California–based Donahue Schriber Realty Group, Inc. "Customers like new centers-they don't like old, worn-out properties," he explains. "You have to continue to update the centers or you will not command the best tenants or the best rents. Oftentimes, you have to renovate just to retain the value of the centers. It's just common sense. You get a higher price for a center that has been renovated than one that is run down."

Casey, who chairs one of ULI's Commercial & Retail Development Councils, notes that Donahue Schriber is looking at five renovations next year after a small hiatus. From 2004 through 2009, his firm spent some $73 million on renovation of its existing portfolio. "During [the] darker days of 2009–2010, we had limited activity, but we did begin one large $20 million renovation at the 275,000-square-foot [25,548-sq-m] Del Mar Highlands Town Center in San Diego, California, adding seven new restaurants, adding parking, and improving internal circulation."

Casey cautions, however, that every renovation is different. "The first thing you have to decide is: are you going to get the investment back?" he adds. "We have improved centers with the intent of increasing rents, but sometimes because of competitive circumstances we aren't able to move the rents. In one case, our competitors lowered rents, so we weren't able to get the rent increase to justify investment. So you need to consider whether you will achieve [the] objective of increasing rents by renovating the center."

Retail renovations have to be done on a site-specific basis, Casey adds, and you have to know the market. "Also, check loan covenants before making any major changes, since you may also need lender approval," he advises. "It's also important to understanding entitlements. Make sure you're maximizing the allowable square footage. Don't do anything that would jeopardize entitlements. And you also need to check the leases of major tenants to make sure there are no limitations or constraints."